

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 ITC-01 AID-05 CIAE-00 COME-00  
EB-07 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02  
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FOR NAC AGENCIES

E.O. 11652: N/A  
TAGS: EAID, EFIN, RP  
SUBJECT: PROPOSED ADB LOAN FOR FOURTH MINDANAO POWER PROJECT

SUMMARY. ADB LOAN OF \$52.0 MILLION WOULD FACILITATE DEVELOPMENT OF NEEDED ADDITIONAL ELECTRICAL GENERATING CAPACITY FOR NORTHERN MINDANAO, AND MISSION RECOMMENDS FAVORABLE NAC CONSIDERATION. HOWEVER, WE RECOMMEND THAT U.S. EMPHASIZE IMPORTANCE OF ESTABLISHING CLEAR GUIDELINES ON TARIFF STRUCTURE FOR ELECTRICAL POWER USE, ENCOURAGE GREATER ATTENTION BY NPC MANAGEMENT TO LOCAL COMMUNITY RELATIONS, AND SOLICIT CLARIFICATION ON ENVIRONMENTAL IMPACT STANDARDS. END SUMMARY.

1. PROPOSED LOAN WOULD HELP FINANCE FURTHER DEVELOPMENT OF AGUS RIVER HYDROELECTRIC POTENTIAL AND PRE-FEASIBILITY STAGE OF HYDROELECTRIC DEVELOPMENT ON TWO OTHER RIVERS IN NORTHERN MINDANAO. AS SUCH, IT WILL ASSIST IN CREATING MUCH-NEEDED ALTERNATIVES TO ELECTRICITY GENERATED FROM INCREASINGLY EXPENSIVE PETROLEUM. THE PROJECT ALSO LOOKS FORWARD TO THE NEEDS OF THE CAGAYAN DE ORO CITY AREA - AN INDUSTRIAL REGION OF GROWING IMPORTANCE.

2. ANOTHER FEATURE OF THE LOAN PROPOSAL BEARS COMMENT; NAMELY, AN UNDERTAKING BY THE BORROWER TO ESTABLISH  
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HENSIVE STUDY OF ALL TARIFF STRUCTURE. THE PRESENT DEGREE OF UNCERTAINTY OVER THE FUTURE SHAPE OF THE TARIFF STRUCTURE IS, WE BELIEVE, HAVING AN ADVERSE EFFECT ON PRIVATE INVESTMENT DECISIONS. DURING A RECENT VISIT TO NORTHERN MINDANAO, EMBOFF ENCOUNTERED A WIDE RANGE OF EXPECTATIONS OVER THE EXTENT TO WHICH THEN EXISTING LOW PRICES IN THE AREA WILL BE RAISED. SIMILARLY, THE LACK OF A DECISION ON PRICING OF POWER TO BE GENERATED BY THE GEOTHERMAL FIELD AT TIWI HAS POSSIBLY RETARDED INVESTMENT DECISIONS IN THE BICOL REGION.

3. IN CALCULATING THE INTERNAL RATE OF RETURN, ADB STAFF HAS ASSUMED AN AVERAGE REVENUE OF 0.25 PESOS PER KWH BY 1982. THIS WOULD BE FIVE TO SEVEN TIMES MID-1976 RATES IN THE ILIGAN-CAGAYAN DE ORO AREA, AND THE SOONER A SCHEDULE OF INCREASED RATES IS FORMULATED AND PUBLISHED, THE MORE HELPFUL IT WILL BE FOR ANALYSIS AND DECISION BY BOTH PUBLIC AND PRIVATE INVESTORS.

4. USADB HAS COMMENTED ON THE ENVIRONMENTAL IMPACT QUESTIONS SURROUNDING DEVELOPMENT OF THE AGUS RIVER (PARA 15, REFTEL). A BANK CONSULTANT RECOMMENDED THAT THE ALLOWABLE LOWERING OF THE LAKE LEVEL SHOULD BE LIMITED TO TWO METERS, AND AN NPC-COMMISSIONED STUDY CONCLUDED THAT THIS LIMITATION WOULD NOT AFFECT THE ENERGY POTENTIAL OF THE AGUS SIGNIFICANTLY. HOWEVER, IT IS NOT INDICATED IN THE PROJECT DOCUMENT WHETHER OR NOT NPC AND THE BANK ACCEPT THIS LIMITATION AS REALISTIC. FILES HERE INDICATE THAT IN 1973, WHEN THIS SUBJECT WAS DISCUSSED WITH THE BANK AND NPC, IT WAS EXPECTED THAT MAXIMUM DRAWDOWN OF THE LAKE WOULD BE FIVE METERS (REVISED FROM AN EARLIER PROJECTION OF NINE METERS). INTENTIONS OF THE PROJECT MANAGERS SHOULD BE CLARIFIED.

5. ANOTHER ASPECT OF LOCAL IMPACT DESERVES DISCUSSION. THE QUESTION OF LOCAL SUPPORT FOR THE AGUS RIVER PROJECTS IS IMPORTANT TO THEIR SUCCESS, BUT HAS BEEN SOMETHING OF A PROBLEM IN THE PAST. FOR EXAMPLE, LOCAL GROUPS HAVE HARRASSED (INCLUDING SMALL ARMS AND MORTAR FIRE) THE AGUS III PROJECT, AND HAVE CAUSED EXTENSIVE LIMITED OFFICIAL USE

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DAMAGE TO A TRANSMISSION SUBSTANTIATION. ON THE OTHER HAND, ATTEMPTS TO SECURE LOCAL COOPERATION IN SECURING RIGHT-OF-WAY AND ERECTION OF TRANSMISSION LINES THROUGH AN ELECTRIC COOPERATIVE AREA AT LANA DEL NORTE HAVE BEEN SUCCESSFUL, AND IN FACT HAVE ATTRACTED ENTHUSIASTIC PARTICIPATION.

6. WE DO NOT WISH TO RAISE ALARMS ABOUT THE SECURITY

SITUATION IN THE PROJECT AREA SURROUNDING AGUS IV, WHICH WILL PROBABLY REMAIN HIGHLY CHARGED AND SUBJECT TO ACTION BY MUSLIM DISSIDENTS FOR THE INDEFINITE

FUTURE. THE MISSION DOES BELIEVE, HOWEVER, THAT HANDLING OF PUBLIC RELATIONS BY NPC HAS FREQUENTLY BEEN INEPT AND INSENSITIVE, AND THAT SOME (NOT ALL) PROBLEMS CAN BE AVOIDED. WE SUGGEST THAT THIS REQUIRES PARTICULAR ATTENTION BY NPC MANAGEMENT.

7. THE ADDITIONAL GENERATING CAPACITY WHICH THIS LOAN WOULD FACILITATE IS NEEDED IN NORTHERN MINDANAO, AND THE MISSION RECOMMENDS FAVORABLE NAC ACTION. HOWEVER, WE RECOMMEND THAT THE U.S. DIRECTOR EMPHASIZE THREE POINTS IN DISCUSSION OF THE LOAN: 1) UNCERTAINTY OVER TARIFF STRUCTURE IS A SIGNIFICANT PROBLEM, AND THE PORTION OF THE LOAN WHICH RELATES TO A COMPREHENSIVE STUDY OF TARIFFS AND ESTABLISHMENT OF A FINANCIAL PLANNING UNIT SHOULD BE IMPLEMENTED AS SOON AS POSSIBLE; 2) ACCEPTANCE BY LOCAL COMMUNITY OF THE PROJECTS IS IMPORTANT TO THEIR SUCCESS, AND WE WOULD HOPE THAT NPC MANAGEMENT WILL INCREASE ITS EMPHASIS ON PUBLIC RELATIONS AND INFORMATION PROGRAMS; 3) ECOLOGICAL CONSIDERATIONS ARE IMPORTANT, AND WE WOULD WELCOME A COMMITMENT BY THE NPC THAT IT WILL STRIVE TO MEET THE TWO METER MAXIMUM DRAWDOWN OBJECTIVE RECOMMENDED BY THE BANK CONSULTANT. SULLIVAN

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